

VZCZCXRO1539
PP RUEHMA RUEHPA
DE RUEHUJA #0864/01 1330858
ZNR UUUUU ZZH
P 120858Z MAY 08
FM AMEMBASSY ABUJA
TO RUEHC/SECSTATE WASHDC PRIORITY 2823
INFO RUEHOS/AMCONSUL LAGOS PRIORITY 9205
RUEATRS/DEPT OF TREASURY WASHDC
RUCPDOG/DEPT OF COMMERCE WASHDC
RUEHZK/ECOWAS COLLECTIVE

UNCLAS SECTION 01 OF 02 ABUJA 000864

SIPDIS

DEPARTMENT FOR EB/IFD/OIA
DEPARTMENT PASS TO USTR (AGAMA)

E.O. 12958
TAGS: [ECON](#) [EINV](#) [EAID](#) [ECIN](#) [NI](#)
SUBJECT: NIGERIA: MICROFINANCE SECTOR-GROWTH AREA

REF: A. ABUJA 1828

11. Summary. The microfinance sector in Nigeria is large and has the potential for further growth. GON officials view establishing Private Public Partnership (PPP) as a mechanism to increase lending that will eventually alleviate poverty. For the GON to be successful the public sector should focus on maintaining macroeconomic stability; involving the private sector in poverty reduction strategies; imbedding microfinance mechanisms into the financial system; tweaking the regulatory framework for increased access; and investing in supervisory capacity building. USAID has worked with several Nigeria banks to assist microfinance lending. Partial credit guarantee has been provided to three commercial banks to provide \$16 million credit access to Micro Small and Medium Enterprises (MSMEs) in the agricultural sector. Challenges remain in the banks' capacity development, financial management and in their dealing with MSMEs. End Summary.

12. The Governor of the Central Bank of Nigeria (CBN), Professor Chukwuma Charles Soludo, outlined improvements in the financial sector at the recent conference on microfinance in Abuja(Reftel A):

- Bank consolidation produced 24 relatively strong banks.
- Commercial banks have expanded to over 4300 branches.
- 7 million depositors added (from 14.8 to 22 million depositors over the last 3 years).
- Deposit sizes increased from 2 trillion naira (\$17 billion) in 2004 to N5 trillion (\$42 billion) in 2007.
- Increased jobs in the sector.
- 600 out of 761 community banks have successfully converted to microfinance banks (MFBs) before December 31, 2007.
- Since December 2005, 117 new applications for MFBs licenses were processed, 40 approved, and 67 approval-in-principle granted.

Public Private Partnership Potential

13. Soludo also reported that the microfinance market is large, with an estimated 60 to 90 million micro entrepreneurs, and trails only the markets in China and India. The CBN is working with other institutions to develop a certification program for microfinance operators to develop Public Private Partnerships (PPP) and urged the private financial institutions to get involved. The program will build capacity within management at MFBs and develop operational skills. Soludo announced the development of Entrepreneurship Development Centers (EDC) in the six national geo-political zones and the opening of three in Kano (North West), Ota (South West) and Onitsha (South East).

14. Soludo stressed that a provision in the microfinance policy calls for state and local governments to set aside one percent of their annual budget to support microfinance lending in their communities, yet state and local governments have not met this target. Soludo promised to continue addressing key challenges in the microfinance sector, such as low outreach, lack of support for institutions, poor

technical skills, and a lack of sustainable funding to deliver effective services.

¶5. Ismail Radwan, World Bank (WB) Senior Economist for Africa, commented, at the recent conference on microfinance in Abuja, that private not the public sector should lead the way in microfinancing. Radwan explained that for now, the Nigerian public sector still directs lending by subsidizing credit, placing an interest ceiling, receiving low repayments, and not reaching poorer applicants. The World Bank's Nigerian portfolio is \$8 million and according to their calculations only 20% of Nigerian households have access to the financial markets.

Microcredit Fund

¶6. As a continuation of government policies in the microfinance sector, President Yar'Adua launched the N50 billion (\$427 million) microcredit fund (MCF) to help Micro Small and Medium Enterprises (MSMEs) in February 2008. The MCF will be administered by the CBN and will provide funds to state governments for lending to MSMEs.

Questions and Obstacles Remain

¶7. Commenting on the MCF, many MSMEs entrepreneurs were skeptical how the fund will help alleviate poverty. Questions left unanswered are how MSMEs apply for credit, is the MCF a one-time idea, and which sectors will receive funds and how much.

¶8. The CBN Governor is aware of these questions and maintains that the GON should provide a stable economic environment by maintaining

ABUJA 00000864 002 OF 002

low inflation rates, strengthening bank regulation and supervision, and addressing critical infrastructure needs. Soludo noted that one critical obstacle to lending money to Nigerians is the absence of an effective national identification system. Banks are reluctant to lend because they cannot reliably check identities.

USAID Ties With Local Banks

¶9. USAID through the \$5.09 million Promoting Improved Sustainable MSME Financial Services (PRISMS), from January 2004 through September 2006, supported microfinance sector in Nigeria. The project collaborated with several banks, the central bank's two divisions working on microfinance policy and other collaborating donors at improving the enabling environment. Four wholesale loans were brokered for \$1.69 million, direct lending to MSMEs increased by \$3.87 million, and about 28,000 microentrepreneurs accessed funds of which 98% are women. Partial credit guarantee has been provided to three commercial banks to provide \$16 million credit access to MSMEs especially in the agricultural commodity value chain.

¶10. Despite relatively stable, broad economic reforms and the restructuring of the Nigerian financial sector, access to finance by MSMEs is still faced with major challenges. The lack of stable management structures within major banks makes it difficult to negotiate and implement wholesale and direct MSME lending strategies. The commercial banks are not accustomed to assessing risk based on the transaction and the borrowers' credit standing. Rather they rely on traditional collateral-based lending that MSMEs do not have. This means that external guarantees are required to build a bridge between Microfinance Institutions (MFIs) and bank loans. The MFI sector does not have an adequate governance structure. It lacks capacity to develop business proposals. It lacks financial management within the MSME sector and the banks have no capacity to serve MSMEs.

¶11. Comment: The microfinance lending has potential for growth and development in Nigeria. Infrastructure and access to funds remain major obstacles for the full development of the microfinance sector in Nigeria. Soludo is a supporter of microfinance institutions and is aware of obstacles faced by MFBs and MSMEs and is trying to help. For the GON to be successful the public sector should focus on

maintaining macroeconomic stability; involving the private sector in poverty reduction strategies; imbedding microfinance mechanisms into the financial system; tweaking the regulatory framework for increased access; and investing in supervisory capacity building. If the GON follows this path there likely will be more opportunities for MSMEs to access funds which should increase employment and lessen poverty. End Comment.

PIASCIK